

Notes from the Field on NSP1, NSP2, and NSP3: Policy Alternatives for Mitigating the Effects of Foreclosed and Abandoned Properties on Neighborhoods

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Introduction

This paper will present an analysis of the Neighborhood Stabilization Program 1 (NSP1), one of three iterations of a federal housing program first adopted in 2008 to address the fallout of the 2007-2008 foreclosure crisis and its resulting impact on neighborhoods. Using the policy analysis framework described by Patton and Sawicki (1993), I will review the problem that this policy was designed to address and propose a framework for evaluating its response. My analysis is informed by real-world experience of having implemented NSP1 in Macon, GA, a city of roughly 93,000 people that has experienced decades of neighborhood decline and long suffered the impact of housing abandonment, vacancy, and foreclosures. One problematic aspect of federal housing policy in general is the need to respond to a diversity of housing markets and conditions nationwide, and I use examples from Macon and other communities to evaluate how adaptable the federal policy was to various local conditions, how well prepared communities were to respond to such a program, and whether and how NSP1 took local capacity into account.

These and other questions lead to the examination of alternative policies—particularly NSP2—a new iteration of NSP that attempted to correct for some of the problems experienced by NSP1. While the logic behind changes to the program can be read as an attempt to address program deficiencies and incorporate feedback from the implementation of NSP1, an examination of these changes reveals tradeoffs that were made involving equity, efficiency, political viability, and operability/local capacity. A brief analysis of NSP3—the latest iteration of the program—suggests some of these tradeoffs may not have been popular. I will conclude with a comparative evaluation of the three programs and make recommendations based on this analysis for potential future directions of the NSP.

Step 1: Defining the Problem

One of the biggest challenges in developing policy at the federal level is defining the scope of the problem it seeks to address. In designing NSP1, there was a clear crisis that triggered this particular policy response—the 2007-2008 foreclosure crisis. This crisis has been well documented as I will briefly describe below. What is less clear is how federal NSP policy makers interpreted the scope of the problem. This ambiguity is implicit in two key aspects of the program’s design: 1) the emergency nature of the federal assistance and timeframe by which it was to be implemented, and 2) the program activities eligible under the program and its means of delivery. The inherent contradiction, which may not be obvious on the surface, is that NSP1 was packaged as an economic stimulus intended to stabilize areas affected by the foreclosure crisis with a short timeframe for implementation, but its delivery and execution relied on traditional community development infrastructure and familiar community revitalization strategies, thus confining its approach while simultaneously undermining its premise. Furthermore, the targeting goals emphasized concentrating the use of funds in areas of “greatest need,” which for some communities—like Macon in particular—were well beyond the point where “stabilization” alone could make a difference (Joice, 2011: 139). Before turning to a more in-depth analysis of these issues, I describe the conditions that led to the policy’s enactment.

The large-scale failure of sub-prime mortgages in 2006 triggered a national foreclosure crisis that not only caused a collapse in the housing market but also resulted in a far-reaching economic recession in the U.S. (and arguably beyond). The contagion effect that spread from the failure of sub-prime mortgages to the wider mortgage market in general led to nearly a tripling of U.S. foreclosure and delinquency rates and a deflation of home values by almost one-third between 2006 and 2009. This crisis in the housing market not only impacted the economy writ large and individuals and families who lost their homes, but also neighborhoods that experienced these high rates of foreclosure and the concomitant impacts that these foreclosed properties had on their surrounding environs (Joice, 2011: 135).

In a policy brief prepared for the Department of Housing and Urban Development, Paul Joice cites several studies linking foreclosures to neighborhood-level impacts, such as violent crime (Immergluck and Smith, 2006a) and deflation of property values (Immergluck and Smith, 2006b; Schuetz et al, 2008). The author also points to the fact that poor neighborhoods tended to have higher concentrations of subprime mortgages, thus magnifying the negative effects of foreclosures in poor and minority neighborhoods. In a separate analysis of the impacts of high-cost lending, Immergluck (2011) confirms this problem. Citing a study of foreclosures in the Chicago region (Smith, 2008), he points out that in census tracts that were over 80 percent minority experienced roughly five times the number of foreclosures per 1000 than those that were 10 percent or less minority (139).

Immergluck also enumerates the multiple ways in which property vacancies and foreclosures add additional burdens and costs to local governments, including increased crime and fire department costs from vandalism and arson, demolition costs, legal expenses and record keeping, lost revenue from unpaid or foregone taxes, and lost economic development opportunities due to undesirable conditions for investment (Immergluck, 2011: 152). These conditions run counter to housing and community development expert Alan Mallach's description of a stable neighborhood, where, "simply stated, a stable neighborhood is a neighborhood where people feel that their investment is secure" (Mallach, 2010: 309).

In Macon, GA, the above conditions describe many of the city's neighborhoods. A house-by-house vacant property survey conducted in 2008 by the city's Neighborhood Stabilization Division found over 2,000 vacant, abandoned, and dilapidated residential structures within the city—probably a low estimate of the total vacancies given the focus on properties that were only observably abandoned. Based on United States Postal Service data assembled by HUD, fully 60% of Macon's 120 Census Block Groups had vacancy rates over 10%--half of those being between

15% and 36% (www.huduser.org/portal/datasets/NSP.html). For a comparison, the national average vacancy rate was 13% for rental and homeowner property during the same period (U.S. Census website, HVS).

Around this same time, the city had over 400 properties that were condemned by the municipal court for demolition. This number has continued to outpace the City's efforts to clear these severely dilapidated properties, despite its push to increase demolitions from 30-40 per year to 75-100 per year. As noted above, the cost of these abandoned properties to the neighborhood and the city government is high. In Macon, the city's five residential property inspectors bring an average of 2000-3000 cases to court per year for housing code violations. Many of these cases include properties with absentee or unknown owners that are never brought into compliance, causing the city to expend funds on abatement actions or leaving the problem properties to fester in the community. From 2008 to 2012, the city budgeted over \$1,000,000 in general funds for demolishing derelict properties—a number that would have to be increased by a magnitude of at least ten in order to catch up with the backlog of condemnations. While property demolition is a fairly popular strategy for both residents and politicians, the city has not demonstrated the will or the ability to adequately fund this program, nor has it well documented the aggregate effects the demolitions have had. Indeed, most of the positive impact of demolishing an abandoned property is highly localized in the immediate vicinity, and only felt for a short period of time, that is, until the cleared lot becomes an eyesore and an overgrown haven for vermin. After a property is demolished, a lien is placed against it for the cost of the demolition, which invariably exceeds the market value of the now-vacant lot. Generally, a cleared lot remains in the name of the absentee owner until the city takes steps to foreclose on the lien, an expensive and time-consuming process that the city will only initiate if a new use has been identified for the property and funds are available to cover the costs.

While this may paint a rather grim picture of local neighborhood conditions, it is by no means an exaggeration. However, it only reflects one out of a multitude of

cities that all fall along a continuum of neighborhood conditions. The reason a discussion of an extreme example is useful here in evaluating the NSP program is because it helps to delineate the boundaries of the problem and identify the scope of the policy and the change it seeks to achieve. Mallach, among other community development specialists, argues that different types of neighborhoods enjoying varying levels of stability or distress require different types of policy interventions (Mallach, 2010: 236-244). While he states that delineating specific typologies may be arbitrary, he notes that many larger cities such as Minneapolis, Baltimore, and Philadelphia have adopted policies that segregate neighborhood revitalization strategies by neighborhood classifications describing their general conditions. In Baltimore these policies include preservation, stabilization, reinvestment, and redevelopment. In Minneapolis they include protection, revitalization, and redirection (Mallach, 2010: 237).

This common approach to community revitalization begs the question once again: how do we define the scope of the foreclosure problem in order to develop a coherent policy at the federal level that can be implemented locally? Returning to the specifics of the foreclosure crisis, we now see that the problem is quite complicated because neighborhoods, communities, cities, and regions were all at different stages of development when the crisis hit, and were presumably impacted in different ways, calling for different approaches. To define the problem simply as a foreclosure crisis resulting in a glut of foreclosed properties that need to be re-occupied misses the larger picture—that some locales had already fully realized the negative impact of property foreclosure and abandonment due to local, rather than national, economic conditions, while others were only experiencing these conditions for the first time. In the following section, I will establish an evaluative criteria to provide a framework for analyzing NSP1 and comparing its subsequent iterations. This method attempts to take into account the trade-offs between highly targeted and general approaches to foreclosures and property abandonment in the wake of the national foreclosure crisis. I will then discuss the specifics of NSP1, 2, and 3, and evaluate these alternative policies based on the defined criteria, using examples

from Macon to illustrate and highlight various strengths and shortcomings of the programs.

Step 2: Policy Evaluation Criteria

So far I have laid out a picture of a problem, or rather, set of problems, which result from foreclosure and abandonment and have impacted communities in different ways and to different degrees. In the context of the most recent foreclosure crisis, these costs have been felt at the level of the individual, the neighborhood, the local (and state) government, and the national economy. Any policy solution must take into account the specific problem it seeks to address and the scale at which it will be addressed. The policy considered here—NSP1—counts as its main objective *neighborhood stability*. Thus, an evaluation of NSP1 should measure how well neighborhood stability was or could be achieved (and based on what definition), and what are the benefits of the policy relative to its costs. Below I propose five dimensions for evaluating the policy that I believe are the most important for determining its viability/desirability and for selecting among alternatives or recommending changes to current policy.

Benefits to the Community

More than anything, a policy aimed at stabilizing communities affected by foreclosed and abandoned properties should produce benefits that directly relate to this goal, and the benefits should be proportional to the costs so that they endure beyond the immediate short term. For example, demolishing one abandoned structure or building one house in a neighborhood may make a difference in the short-term and immediate vicinity, but unless the removal of blight or introduction of the new homeowner is supported and sustained over time and through additional efforts, the benefits may be short-lived and limited to an individual rather than the neighborhood, and prove to be a lost investment over time. Benefits should also accrue exponentially, so that more benefits can be realized with fewer resources as resources are increased.

Political Viability

Political viability is critical to any policy to be considered. Even if a policy is proven to provide certain benefits, there should be enough consensus over how these benefits are realized, and to whom, to enable the policy to be effectively implemented without risk of being undermined by those who oppose it. In order to be politically viable, a policy generally has to appeal to key constituencies and interested parties who may not share the same goals and values. For instance, a bank may want to sell its foreclosed properties but may not believe it should sell them at a discount or have to make significant repairs prior to sale. Alternatively, a community may want the city to demolish or repair an abandoned home in their neighborhood but they may not want a “project” home in their neighborhood. This latter example may appear to be a caricature but it actually occurred in one of Macon’s proposed focus areas, where a homeowners association actually held a vote to oppose the use of NSP1 funds in their subdivision. Thus, political viability is important at both national and local scales.

Administrative Operability

I consider administrative operability as the most important criteria in the evaluation of a policy. Whether or not there is capacity to administer a policy, either at the national, state, or local agency level, is central to its success. The lack of administrative operability can create hostility within agencies and the public and frustrate future attempts to address a particular problem through government intervention. At the very least, a policy that cannot be efficiently or effectively administered will not achieve its goal. For example, the federal government’s attempt to induce mortgage servicers and banks to modify mortgages and provide relief from foreclosure to homeowners proved incapable of being efficiently administered, and produced far fewer benefits than was hoped. A policy formed at the federal level to be implemented locally must also consider the administrative capacity of the local agencies designated to carry it out.

Equity

Housing policy should produce benefits that are equitable and that recognize and respond to the needs and vulnerabilities of specific groups of people. It should address vertical equity to ensure that those most in need are served, and horizontal equity in order to avoid arbitrary distribution of benefits. While policy goals may conflict somewhat with providing only for the neediest first, a policy should nevertheless take a balanced approach between achieving overarching goals while addressing issues of equity.

Sustainability, Affordability, and Risk

Sustainability, affordability, and risk are important aspects of a policy's long-term success. Sustainability refers to the ability of a policy's outcomes to remain stable over time without continuous subsidy. This may manifest itself in a policy that actually produces income to sustain or reproduce itself, or one that changes the economic or social environment in such a way that outcomes are sustained through the creation value in the form of private and social capital.

Affordability is similar to the idea of community benefits above, but specifically relates to a policy's ability to achieve its stated goal within the level of subsidy or resources allocated to the program. Thus, a policy cannot be considered affordable only because a certain amount of resources that were allocated to it were deemed "affordable" to the funding agency. Rather, those resources must be sufficient to achieve the stated purpose or goal of the policy. In the City of Macon, for example, the program for demolishing condemned residential properties may not be considered affordable, because the city is unable to reach the goal of demolishing all condemned properties at the level of resources currently allocated.

Risk refers to the level of uncertainty of a policy's outcomes, i.e., the potential of a policy to produce unwanted or negative externalities, and the stability of the policy itself. In addition, this criterion should take into account the risk to the administrator of the policy, whether it is a federal or local government, nonprofit or for-profit agency, and consider whether regulations are unambiguous enough and

stable enough to allow the administrator to steer clear of regulatory violations or fines.

These criteria are not comprehensive, but I believe they are essential to consider in evaluating a stabilization policy's potential for success. Because the problem of foreclosed and abandoned homes in the context of the national foreclosure crisis is complex and suggests intervention at multiple levels and scales, careful policy development is especially critical. In the following section, I will describe the alternative policies to be considered before evaluating and selecting among them or suggesting changes.

Step 3: Policy Alternatives

Alternative 1: NSP1

In mid-2008 as it became clearer and clearer that robust government intervention was needed to stem the rising tide of home foreclosures and the concomitant nationwide economic collapse, President Bush signed into law the Housing and Economic Recovery Act of 2008, otherwise known as HERA. The Act directed hundreds of billions of dollars through several new programs targeting foreclosure prevention, yet only a small portion of the funding was designated to address the direct impact of newly foreclosed, vacant and abandoned properties on neighborhoods. The Neighborhood Stabilization Program (referred to as NSP1), authorized \$3.9 billion for the acquisition, rehabilitation, resale, and land banking of foreclosed and abandoned residential properties, among several other uses. Congress gave the Department of Housing and Urban Development (HUD) 60 days to design the details of the program, including a formula to calculate the distribution of funds to states and units of local government, and mandated that these agencies obligate their funds to specific projects within 18 months of their receipt (Blum, 2011). The program was designed to last 4 years, after which time the Treasury would recapture any unspent funds.

At the outset, there was debate between Democratic lawmakers and the Bush administration about the need for this program and its size. The Bush administration resisted including it in HERA at first. Eventually they ceded to a \$4 billion authorization in exchange for support for a much larger macroeconomic package of funds for Fannie Mae and Freddie Mac, Federal Reserve actions to keep interest rates in check, and a new homebuyer tax credit (Joice, 2011). On the other side of the debate, Democratic representative Barney Frank pushed for a \$15 billion NSP1—an amount that would have made a marked difference in the scope and reach of the program—but failed to achieve this goal in the end (Phillips and White, 2008).

The policy justification for NSP1, according to Joice, was that while HERA included large-scale funding for foreclosure prevention and housing market stabilization on a macroeconomic level, there was need for a more targeted program to “soak up the emerging glut of foreclosed units and help neighborhoods where foreclosures and vacancies were causing particularly severe problems” (Joice, 2011: 136). While critics of this approach argued that the foreclosure process signifies a chance for the market to correct itself after its excesses and reset prices to more realistic levels, Joice explains, policymakers and housing advocates recognized the risks this posed to communities and neighborhoods. As I detailed earlier, these “negative externalities” include the vulnerability of vacant properties to crime and vandalism, deterioration of the property due to a lack of investment, and depressed neighborhood housing values due to discounted sales of distressed properties (Joice, 2011: 137).

The details of the policy suggest how lawmakers, and subsequent federal policymakers, imagined these problems could be addressed. First, the funding was to be implemented at the state and local level by HUD entitlement recipients, with a minimum grant size of \$2 million per local entitlement, and about \$19 million minimum per state. Any entitlement whose funding determination fell below \$2 million had their share rolled up into the state’s grant and was left to petition the

state for funding (although many states, including Georgia, developed their own direct allocation method). This effectively reduced the number of direct grantees that HUD would be responsible for to just over 300, which HUD believed was key in making the program manageable. The funding formula for states was derived through an algorithm that took into account a number of foreclosure-related factors, including:

- Foreclosure starts in last 6 quarters
- Foreclosure rate
- Number of subprime loans
- Subprime rate
- Number of loans in default
- Default rate
- Number of Loans 60 to 89 days delinquent
- 60- to 89-day delinquent rate
- Vacancy rate in Census Tracts with more than 40% of the loans High-cost

Local funding was calculated by each locality's proportion of estimated foreclosure starts in the last 6 quarters and the local vacancy rate in Census Tracts with more than 40% of the loans high-cost compared to the state (HUD User website).

NSP regulations were developed specifically to address the foreclosure crisis, but their basic structure was built on the chassis of the Community Development Block Grant (CDBG) Program. This program, initiated in 1974, is funded through HUD and allocates funds to states and localities under three broad national objectives: 1) to benefit low- and moderate-income people; 2) to prevent or eliminate slum and blight; and 3) to provide assistance to deal with urgent needs such as natural disasters or major health and safety risks to communities. States and entitlements develop their own local plan, called a Consolidated Plan, which identifies priorities for spending the funds over a certain period of time (HUD.gov website, Office of Community Planning and Development).

Under NSP, only the first national objective was considered eligible, although a major change was made which heretofore had not been authorized under CDBG: the

income limits for beneficiaries was increased from low and moderate, or 50% and 80% of area median income (AMI), to middle income individuals at 120% AMI. However, in order to ensure the provision of housing for very low-income individuals, 25% of each grant was set aside for housing for those making less than 50% AMI. Like the federal HOME program, a minimum period of affordability was established using HOME program requirements as a safe harbor, but allowing grantees to impose stricter requirements (Federal Register, 2008: 58330). Another change that was made was the removal of the 1-for-1 replacement rule for demolishing housing with federal funds. In addition, five broad categories of eligible activities were identified for states and communities to design their programs, including to:

- (A) “establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers;
- (B) purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties;
- (C) establish land banks for homes that have been foreclosed upon;
- (D) demolish blighted structures; and
- (E) redevelop demolished or vacant properties” (Public Law 110-289, sec. 2301(c)(3)).

States and localities were then given a limited amount of time to develop their own plans, and were mandated to use the funds in so-called “areas of greatest need.” HUD developed a formula to calculate “foreclosure risk scores” by Census Tract (again based on local foreclosure and high-risk loan data), and required grantees to use these indices in identifying and allocating funding to local areas of greatest need. While this area had to meet a minimum risk score threshold, the grantee was free to identify a large area or group of areas, or a single Census Tract.

In addition to these basic rules, several aspects of the policy were changed early in the planning and implementation stage. This included a requirement that foreclosed real-estate owned (REO) properties be purchased at a discount, the size of which was revised from 15% to 1% in a subsequent Federal Bridge Notice updating the policy in 2009. This was done out of overwhelming concern that these forced discounted sales would either depress housing values further by creating low comparables, or prevent grantees from having the flexibility needed to purchase REO properties from reluctant owners or when there was competition from other property investors. Also, HUD had initially planned for all reinvestment of program funds to halt abruptly after 5 years and for all program income to be returned to the Treasury. While this was a statutory requirement of HERA, the subsequent American Recovery and Reinvestment Act (ARRA) that created NSP2 repealed the provision and the Federal Bridge Notice updated the requirement allowing program income to be reinvested back into NSP-eligible activities indefinitely (Federal Register, 2009: 29224)

While I have not provided a fully detailed account of NSP1 due to space, I have included what I believe to be the key aspects of this policy. In summary:

- NSP1 was a federal policy response to the glut of foreclosed and abandoned housing created by the 2007-2008 foreclosure crisis and its impact on neighborhoods;
- The federal government provided \$4 billion to HUD to create a program that would allow for the purchase, rehabilitation, redevelopment, demolition, or land banking of foreclosed, vacant, and abandoned properties;
- Funding was distributed to state and local entitlement communities using a block grant formula based on data collected by HUD to estimate the severity of the foreclosure crises in each locale;
- Housing funded through this program was to be rented or sold to persons making 120% AMI or below, and 25% of the funding was targeted to people at 50% or less;

- Grantees had 18 months to obligate their funds, and 4 years to completely expend them; and
- Grantees devised their own implementation plans by identifying their local areas of greatest need and describing the distribution and use of funding across the different types of eligible activities.

Alternative 2: NSP2

In 2009 at the start of the Obama administration it was clear that economic recovery was going to be much more elusive than previously thought. The administration argued for and was able to pass a second “stimulus” package, called the American Recovery and Reinvestment Act of 2009 (ARRA) in order to address the ongoing financial crisis. Among several programs designed specifically to create jobs and stimulate the economy in the short term, ARRA also designated programs to help those impacted by the crisis, including a second round of Neighborhood Stabilization funds called NSP2.

Key differences in this second round of funding were that it was converted to a competitive grant for which states, local jurisdictions, nonprofits, and consortia of nonprofits (with for profit agencies included) could compete. Also, \$2 billion, rather than the \$4 billion of the first round was authorized, and \$50 million was reserved to provide capacity building and technical assistance to both NSP1 and NSP2 grantees (NeighborWorks America Stable Communities website). The method for determining areas of greatest need for use in targeting the funds was also changed. A foreclosure need index on a scale of 1-20 was created (rather than NSP1’s foreclosure risk score from 1-10), and grantees were allowed to aggregate an average need score across non-contiguous Census Tracts, as long as the average was 18 or higher (or no less than the state’s designated minimum score). This geographic targeting was made easier through a HUD-provided on-line mapping tool.

The NSP2 grants were limited to \$5 million minimum awards, with a requirement that the funds “touch” at least 100 separate housing units. Through the competitive process, grantees had to prove they had the capacity to administer the grant by documenting that they had developed a minimum of 75 units of housing in the previous 24 months. Unlike NSP1, NSP2 funds designated redevelopment only for housing uses. Therefore, converting vacant land to parks or greenspace was no longer an acceptable use (this was allowed under NSP1). Also, demolition was limited to only 10% of the total grant allocation, with a process for requesting a waiver up to 20%, and land banks were given the ability to acquire residential property other than foreclosures. As in NSP1, administrative costs were capped at 10%. Finally, a key change was made in April of 2010 that became retroactive to NSP1 as well, expanding the definition of “foreclosed” and “abandoned” to allow for additional types of property purchases such as short sales (Greenburg, 2009).

While the five main eligible uses identified in NSP1 remained the same, the nature of this second iteration of NSP marked a substantial departure from the first approach. The changes outlined above indicate a move away from a purely “need based” approach. In a presentation on NSP2 at a national conference in 2009, Sarah Greenberg summarized these differences, which she characterized as “attempts to address the challenges inherent in [NSP1], by focusing on:

- Regional approaches
- Geographic targeting (concentration of resources)
- Capacity to carry out activities
- Comprehensive planning
- Leveraging resources
- Public/private partnerships
- Rational use of land
- Interventions likely to succeed
- Requiring energy efficiency” (Greenberg, 2009)

One of the main impacts of this new policy was the drastic reduction in number of direct grantees, along with variation in types of grantees, including national and regional nonprofits and nonprofit consortia, as well as state and local jurisdictions.

The number of direct awards from HUD dropped from 309 to 56, although there were 482 applicants for NSP2, including Macon, GA, which was not awarded an NSP2 grant (NeighborWorks America Stable Communities website). In fact, Georgia was among several states that received no NSP2 funding at all, causing many questions about the equitable distribution of funds.

Alternative 3: NSP3

Finally, NSP3 was adopted in July 2010 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. This latest round of NSP funding was reduced to \$1 billion, and the method of allocation was shifted back to the NSP1 block grant formula. States were guaranteed a minimum grant of 0.5% of the total funding (as in NSP1), 2% was set aside for technical assistance, and the cutoff point for direct allocations to local jurisdictions was reduced from \$2 million to \$1 million (for this round, the City of Macon received a \$1.5 million award). One additional key change in this policy was that it expanded the eligibility of properties allowed to count toward the 25% low-income targeting goal to include vacant properties, meaning that properties did not have to meet the definition of “foreclosed” in order to meet this requirement (stablecommunities.com website). This change made a significant difference in Macon, for example, enabling the redevelopment of land assembled by the Land Bank Authority in a strategic location that otherwise would not have been eligible to count toward the low-income set-aside. It reflects a considerable effort by national advocacy groups such as the National Foreclosure Prevention and Neighborhood Stabilization Taskforce (NFPNSTF) to influence the ongoing federal policy response from community and housing advocates’ perspectives (NFPNSTF, 2009 letter to Senator Chris Dodd).

Another provision that was unique to NSP3 was the requirement that grantees prioritize low-income rental housing and provide a plan for hiring workers for NSP-funded projects from the local vicinity. Other minor changes were made as well, such as a geo-targeting tool, which allowed grantees to draw boundaries around project areas and receive data specific to that area indicating eligibility

(using the 20-point foreclosure need scale from NSP2), detailed neighborhood conditions, and the minimum number of properties needed to “stabilize” the area.

Below I present a table adapted from Neighborworks America’s Stable Communities website that lists the key aspects that differentiate these three policies before evaluating them individually based on the criteria discussed earlier.

Table 1: Comparison of NSP1, NSP2, and NSP3 attributes

	NSP1	NSP2	NSP3
Year	Act passed in 2008 (Division B, Title III of the Housing and Economic Recovery Act [HERA] of 2008)	Announced and applications due in 2009 (Title XII of Division A of the American Recovery and Reinvestment Act of 2009, [the Recovery Act]. Awards announced 2010.	Passed July 2010 (Dodd-Frank Wall Street Reform and Consumer Protection Act).
Amount	\$3.92 billion	\$2 billion (\$50 million set aside for technical assistance)	\$1 billion (up to 2% set aside for technical assistance)
Methodology of Awards	HUD provided grants to all states and selected local governments on a formula basis.	Competitive application process open to local governments and nonprofits; collaborations were encouraged and could include private sector partners. Grantees were selected on the basis of foreclosure needs in their selected target areas, recent past experience, program design and compliance with NSP2 rules.	Distributes funds by the formula allocation used for NSP1.
Eligible Uses	<p>NSP funds may be used for activities which include, but are not limited to:</p> <p>Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties.</p> <p>Purchase and rehabilitate homes and residential properties abandoned or foreclosed.</p> <p>Establish land banks for foreclosed homes.</p> <p>Demolish blighted structures.</p>	<p>Key Changes:</p> <p>Minimum purchase discount changed from 5% to 1% for individual properties, and from 15% to 5% average for the overall portfolio.</p> <p>In April, 2010, HUD changed the definitions of “foreclosed” and “abandoned” for the purposes of identifying eligible properties for NSP1 and NSP2 to include properties where the mortgage is 60 days delinquent or tax payments are at least 90 days delinquent. This allows for a property to be acquired through a short sale, and was intended to streamline the process of acquisition. Changes are retroactive to NSP1.</p>	<p>Key Changes:</p> <p>Funds available until expended.</p> <p>Grantees have 2 years from the date HUD signs their grant agreements to expend 50% of the funds and 3 years to expend 100%.</p> <p>Establishes a minimum grant size of \$1 million for cities and counties.</p> <p>Permits redevelopment or rehab of “vacant” properties to qualify for the 25% low-income set aside (previously only “abandoned or foreclosed” homes counted).</p>
	Redevelop demolished or vacant properties		
Number of Applicants	N/A	482	N/A
Number of Awards	309	56	270
Deadlines	Funds are to be obligated within 18 months of availability to recipient; and expended within 4 years.	Recipients must expend 50% of allocated funds within 2 years of the date funds are available to the recipient, and 100% of funds must be expended within 3 years.	Grantees have 2 years from the date HUD signs their grant agreements to expend 50% of the funds and 3 years to expend 100%.

Source: <http://www.stablecommunities.org/nsp-strategies>

Step 4: Evaluation of Policy Alternatives

Below I present an evaluation of NSP1, 2, and 3 based on the dimensions described above. I rank each policy on a score of 1-10 (10 being the highest rank), and have also weighted the criteria slightly to reflect their relative importance in the scheme I propose. I do not attempt an exhaustive evaluation here, but rather, one that is practical and informative based on the scope of this paper, and informed mainly by examples from Macon rather than a comprehensive study of NSP recipients. The weighing scheme is as follows:

- **Benefits to the Community=15%**
- **Political Viability=25%**
- **Administrative Operability=30%**
- **Equity=15%**
- **Sustainability, Affordability, and Risk=15%**

Benefits to the Community: NSP1 (score of 6 out of 10)

To the extent that NSP1 regulations enabled the design and implementation of activities directly related to addressing foreclosed and abandoned properties, I consider this policy to be moderately effective. However, the level of effectiveness was highly dependent on each jurisdiction's capacity to respond. Unlike foreclosure prevention measures contained in HERA, which were largely homogenous nationwide, the foreclosure response of NSP1 depended on the civic infrastructure of local jurisdictions to deliver the program and produce the desired benefits (Joice, 2011). In a study of regional responses to the foreclosure crisis focusing on both prevention and recovery efforts, Swanstrom et al. (2009) propose a useful concept in evaluating policy design: *regional resilience*. In this report on six paired metropolitan regions heavily impacted by the crisis, the authors find that even controlling for differences in housing market conditions (i.e., weak vs. strong markets), the ability of regions to respond was varied based on their level of resilience. Resilience, as they define the concept, is "the ability of a system (region, government, company, nonprofit, or individual) to bounce back from an external stressor or challenge and recover healthy functioning" (3). They find that "Evidence

of resilience is the ability of regions and the organizations within them to respond to the challenge by:

- 1) redeploying assets or expanding organizational repertoires;
- 2) collaborating across public, private, and nonprofit sectors; and
- 3) mobilizing or capturing resources from external sources” (Swanstrom et al., 2009: 4)

These observations resonate with the City of Macon’s response to the announcement of NSP1 awards. While Macon did not receive a direct grant from HUD (it was just below the \$2 million cut off), it mobilized local partnerships with the Land Bank Authority, the Housing Authority, Habitat for Humanity, and Home First (a housing counseling nonprofit), and cooperated with the Bibb County government to receive and administer both the county and city’s share of funding awarded by the state. This increased Macon’s allocation from \$1.9 million to \$4.1 million. The Economic and Community Development Department, which had been administering CDBG funds for over 30 years, was well-equipped to navigate the local, state, and federal policy and regulatory process and to marshal the capacity to implement its program through partnerships with local housing agencies. The city’s NSP team, composed of these partners, designed a program to maximize the benefits to the community by building on local projects and leveraging additional resources. Based on the weak local housing market and severe state of disinvestment described earlier in this paper, however, the program focused on concentrating funding to the extent possible in order to affect a critical mass in strategic areas. Many cities did not take this approach. An article appearing in the Wall Street Journal, for example, exemplifies the types of choices communities had to make:

The vastness of Avondale's foreclosure problem puts city officials in a bind. They could concentrate the \$2.5 million they expect from the federal government in one or two neighborhoods and hope to reverse their declines. Or they could spread the money more widely, realizing that it's unlikely to achieve much in any one area. They're choosing the second path. "There just isn't enough money to do concentrated revitalization," said Andrew Rael, who manages the housing grant for the city (Phillips, 2008).

Thus, whereas the City of Avondale, AZ may have spread their funding equally and made very little impact on any one community or the city as a whole, the City of Macon concentrated its funding primarily in two Census Tracts, significantly changing the dynamics of neighborhood stability in those two neighborhoods while leaving the majority of the city untouched. In both cases, we can see how benefits to the community as a whole were tenuous and perhaps marginal, and were related both to the size of the award relative to local needs, as well as the particular strategy chosen by the locale.

Based on these limited examples, it is difficult to quantify community benefits on a national scale. But they highlight some important factors in determining the potential for a community to realize the policy's intended benefits. First, NSP1 made a wide range of uses available to communities, allowing some flexibility in the types of responses to the crisis. However, specific restrictions on the types of properties eligible for purchase (i.e., foreclosed homes) limited the flexibility of grantees to respond to local problems (Joice, 2011, Immergluck, 2012). Second, the limited funding relative to the need in both hot markets (where high acquisition costs may limit the number of properties affected) and weak markets (where no level of funding could produce stable neighborhoods) may have hampered NSP1's ability to produce significant benefits on a community—let alone national—scale.

Benefits to the Community: NSP2 (score 8 out of 10)

I rate NSP2 higher in regards to community benefits primarily because of the potential for concentrating resources where there is strong capacity for implementation and a clear comprehensive plan. The competitive nature of the award, the minimum \$5 million grant level and number of properties required to be affected (100 minimum per grant) encouraged the kind of partnerships and leveraging of resources that made one of Macon's projects so successful. I refer to a partnership with the Macon Housing Authority's nonprofit housing subsidiary to demolish and redevelop a 26-acre tract of abandoned apartment buildings. This project leveraged the city's \$1.5 million NSP1 investment in demolition of the

structures with nearly \$9 million in private capital raised through the sale of Low-Income Housing Tax Credit Funds (LIHTC), \$500,000 in additional CDBG funds, Housing Authority capital funds, and an additional \$2.5 million from the state's NSP allocation that was set aside for LIHTC.

Ironically, the City of Macon did not receive an NSP2 award, but the above model can nonetheless be illustrative of the type and structure of benefits that could be realized from a well-targeted and competitive program.

Benefits to the Community: NSP3 (score 4 out of 10)

I score NSP3 relatively low in this dimension primarily because of the level of funding was significantly less than the original NSP1 allocation. Where communities struggled to make a noticeable impact with the funds allocated under NSP1, the lower level of NSP3 funds made this even more challenging. Based on Macon's experience, however, there are alternative ways to view NSP3 benefits. On the positive side, because of prior experience with NSP1, jurisdictions may have been more equipped to plan and implement the program. In Macon's case, the same set of partners worked together to identify a feasible project fairly seamlessly. In addition, relaxed requirements for meeting the very low-income targeting goal made these benefits much easier to realize, especially for communities trying to leverage partnerships with tax credit developers (NHC.org website, letter to Senator Chris Dodd).

On the potentially negative side, however, Macon's capacity was already stretched due to the ongoing administration of NSP1, a condition that may have been present in other jurisdictions that were unable to hire additional staff with the relatively small administrative costs allowed. Also, the emphasis of NSP3 on creating affordable rental opportunities could have been challenging for housing agencies that for years have been tooled for home ownership development. By chance, Macon was able to capitalize on an opportunity to work with one of its previous partners in developing 12 units of permanent supportive housing, thus meeting a goal of the program and enhancing the success of an ongoing project in a very distressed neighborhood. However, this project signified the use of the city's

entire NSP3 allocation, preventing benefits from being realized in other communities.

Political Viability: NSP1 (score 7 out of 10)

On the dimension of political viability, I rate NSP1 moderate to high. This is because, much like CDBG, while the policy's support is under constant attack from Republicans at the federal level, support from states, local jurisdictions, and housing and community development advocates is very high. In addition, a federal program that can potentially address a failure in the private market may alleviate some stress for holders of REO, including banks and real estate companies with powerful federal lobbies. Another reason for this higher ranking is temporal; amidst the worst impacts that were being felt nationally from the foreclosure crisis, there was an opportunity for relative consensus around the need for a policy fix. This provided ample opportunity to negotiate a strong federal response, even though the ultimate outcome authorized far less funding than originally sought.

At the local level, NSP1 was fairly popular, largely due to the fact that this federal funding was directly and widely allocated and made available to communities that needed the help. While much handwringing occurred among jurisdictions that felt they needed more funding or felt that the funding formula was skewed against them (including Macon), ultimately most jurisdictions received needed funding. I would count among NSP1's political vulnerabilities the basic newness of a federal housing program of this size for many communities. While I can't quantify this sentiment based on the information I have, the example I mentioned earlier about one suburban community outside of Macon holding a vote to reject the funding illustrates the potential for ideological frictions.

Political Viability: NSP2 (score 5 out of 10)

I rank NSP2 lower on this dimension because it removed a base of political support from those that did not receive funding despite their needs. This had the potential to create some enmity and mistrust between jurisdictions and the federal agency responsible for the awards. In addition, NSP2 came out of a much more

visible piece of legislation from the Obama administration that became very politically unpopular over time. On the other hand, converting NSP2 to a competitive grant may have served to address criticisms that funding was being wasted where it was not needed or where communities did not have the capacity to implement it.

Political Viability: NSP3 (score 5 out of 10)

While NSP3 also came out of a piece of hotly contested federal legislation (Dodd-Frank Wall Street Reform and Consumer Protection Act), the allocation was smaller and perhaps not as noticeable. However, NSP3 had suffered the same vulnerability as its other iterations from House Republicans, who had introduced various bills aimed at ending the program and recapturing all unspent funds.

Administrative Operability: NSP1 (score 4 out of 10)

This dimension of NSP1 has been widely commented on and can be seen as a major impetus for changing the way awards were structured and distributed so drastically during its second round of funding. While HUD viewed using CDBG regulatory structure for NSP1 and its traditional entitlement jurisdictions as a point for distribution as an advantage to the agency, this did not necessarily translate into an advantage for all grantees. Because of HUD's limited role in administering NSP1, responsibilities of program design, targeting, administration, and program monitoring fell on states and local jurisdictions (Joice, 2011; Immergluck, forthcoming). In Macon, this meant administering an award larger than its annual CDBG allocation with the same number of staff, but under a compressed time frame and with admonitions from HUD along the way that the Inspector General and Department of Justice would be watching the grants closely. While a limited amount of funds could be used for salaries and administration, the City was reluctant to hire new staff to operate what was expected to be a temporary a program.

Swanstrom et al. (2009) have pointed out that traditional CDBG entitlements were better prepared to administer these funds due to the strong regional resilience built up over time through collaboration across public, private, and nonprofit

housing partnerships (48). A recent Master's Thesis from Cornell University investigates this finding further and concludes that suburban communities with less housing experience were much less prepared to implement the requirements of NSP1 than their urban counterparts, especially in the case of meeting low-income housing set asides (Decker, 2011). While as of this writing, the City of Macon has succeeded in implementing its NSP1 plan without any regulatory findings from the state or from HUD, there was considerable relief when news came down that Macon would not receive an additional \$5 million NSP2 grant.

In addition to the above, Immergluck (*forthcoming*) details another major problem with the administrative operability of NSP1. He notes that the narrowness of regulations around property acquisition inhibited communities' ability to acquire strategic properties (27). The rapidly changing landscape of the market for REO properties, as he details in a different study on the volatility of the REO market (Immergluck, 2012), proved a challenging environment to compete with unregulated small-time investors purchasing low-value properties. These same properties were those likely to be targeted by NSP1 programs as well (58).

While the weak market in Macon, coupled with local resilience and capacity, allowed the city room to maneuver around some of these restrictions, it is highly unlikely that communities new to vacant and foreclosed property issues would have the same capacity to navigate this terrain, especially in areas with a more active housing market.

Administrative Operability: NSP2 (score 6 out of 10)

NSP2 rates higher on this criterion principally due to two factors: 1) the liberalization of definitions of eligible properties; and 2) the reconfiguration of the grant toward an emphasis on capacity. While the first change was retroactive to NSP1, the larger shift in NSP2 policy sought to correct what had been perceived as a major shortcoming of NSP1. This change effectively gave HUD much more control over the size and allocation of grants. In addition, the change in geographic targeting methodology attempted to provide more flexibility in how grantees measured need across different types of markets (Joice, 2011: 139). The size of the

awards made and the decreased level of funding—half that of NSP1—provided the additional bonus for HUD of having far fewer grantees to monitor. One final plus for NSP2 in this category is the inclusion in the policy of \$50 million set aside for capacity building. This technical assistance has been offered to all NSP recipients largely free of charge (aside from travel costs when necessary) in the form of regional problem solving clinics, one-on-one TA calls and visits, and a spate of webinars covering requested topics on an almost weekly basis at times.

While these improvements probably increased the operability of the program all-around, grantees who were not previous CDBG or NSP1 recipients still were at the disadvantage of learning new regulations and reporting systems, which could have proved more difficult for nonprofit and for profit agencies not used to directly administering federal funds.

Administrative Operability: NSP3 (score 6 out of 10)

NSP3 receives a moderate score for operability because of the return to a now-familiar system, and smaller overall amount of funding awarded to each jurisdiction. The additional rule change making redevelopment of vacant properties eligible to qualify for the low-income set-aside was a bonus of this policy as well, allowing communities more flexibility in targeting properties for the program. But this change was offset by new program guidance and requirements regarding the emphasis on rental housing and vicinity hiring. For Macon, the focus on rental housing caused initial heartburn due to the city's lack of activity in the rental housing arena for many years, and it is probable than many communities had to retool to adjust to this new strategy.

Equity: NSP1 (score 7 out of 10)

NSP1 scores relatively high on equity because of the policy's inclusion of low-income set-asides and minimum affordability requirements, which is on top of blanket CDBG rules on fair housing, discrimination, Davis Bacon wages, Section 3 and minority contracting, and handicap accessibility, among others. However, the implementation and effectiveness of these regulations most likely varied heavily

among grantees based on the demographics of different regions. For example, Macon far exceeded its 25% set-aside by funding 15 Habitat for Humanity homes, which was in addition to 30 of the 75 single-family rental homes in the LIHTC project being set aside for very low-income families. However, a quick scan of recent quarterly reports to HUD reveals some suburban communities having a much harder time meeting this requirement, a finding supported by more extensive research done by Decker (2009) for his thesis cited earlier.

While NSP1 policy attempts to achieve vertical equity standards through these requirements, horizontal equity in the face of such a massive foreclosure crisis is much more elusive. First, the sheer number of foreclosures dwarfs the actual number of homes expected to be redeveloped or reoccupied through NSP1 funds (Immergluck, *forthcoming*: 26-27). The question of concentrating resources in the hardest-hit neighborhoods, spreading funding around, or trying to stabilize higher performing neighborhoods before they decline beyond stabilization was left to local jurisdictions. Thus, the policy itself does not dictate the level of horizontal equity each community must attempt to achieve. To give another example from Macon, the majority of the city's Census Tracts qualified for NSP1 funding, whereas most of the funds were expended in only three of these Tracts.

Equity: NSP2 (score 4 out of 10)

NSP2 scores low on the equity criteria because, on a national level, the policy fails to address many distressed areas that lacked the capacity to be competitive for the award. This lack of capacity could be in hard-hit areas without much civic infrastructure—or regional resilience as discussed above—further disadvantaging communities with little capacity to respond to foreclosure-related problems in the first place. In this sense, neither vertical nor horizontal equity was achieved at the national level. Where NSP2 was implemented, however, the same general conditions for equity in NSP1 should apply.

Equity: NSP3 (6 out of 10)

NSP3 included two key provisions that increase its equity score: the emphasis on affordable rental housing strategies and the requirement to make efforts to hire local workers for NSP projects. The only reason it scores lower than NSP1 is due to the lack of funding allocated in this round. In the City of Macon, this lack of funding led to a problem with horizontal, but not vertical equity. The city funded one project expected to house 10 out of 12 families below 50% AMI, but could not leverage additional funds to focus outside of a single Block Group.

Sustainability, Affordability, and Risk: NSP1 (5 out of 10)

An initial key provision of NSP1 that was challenged and subsequently repealed would have required all unspent funding as well as program income generated from the sale of rental of NSP properties to be returned to the Treasury after a five-year period. The repeal of this provision changed the nature of NSP1 and its subsequent rounds to allow for reinvestment of program funds back into NSP-eligible activities, and also incentivized private developers who were allowed to keep profits deemed reasonable to each jurisdiction, provided it did not create a perception of “undue enrichment” (Federal Register, 2009: 29224). This key feature enhances the sustainability of the program over time.

Affordability, which I define above as a policy’s ability to achieve its stated goal within the level of subsidy or resources allocated, is much harder to quantify for NSP1. This may be an awkward definition, but it is meant to capture the idea that sometimes the scope of a problem is so widely defined that no level of resources can adequately address it, thus exposing a policy to vulnerability from policy makers who do not want to be seen as throwing good money after bad.

The reason this criteria is hard to quantify for NSP1 is that there are no requirements for matching funds, and very minimum standards regarding the amount of subsidy each unit should receive. Thus, a city could acquire, demolish, redevelop, and finance the sale of a home to a single individual, and end up spending a large portion of its funds on a small number of properties. Conversely, a jurisdiction could limit its investment to temporary construction financing or small

amounts of “soft seconds” to fill gaps only where needed, thus extending the reach and leverage achieved. In Macon, both of these approaches were taken. In one neighborhood the city spent \$1.7 million to build 15 houses, while in another the city spent the same amount on 75 homes.

The other dimension of affordability is the ability to achieve the outcome of stability with the level of resources expended, which is also hard to quantify. For example, even though such a large investment was made in the former case of the 15 homes in Macon, these were all built within a small target area and have effectively changed the face of that neighborhood to achieve some manner of stability. Had the same 15 homes been spread throughout the city, this goal would not have been reached. Because NSP1 policy was rather agnostic on the approach taken, I rate this policy low.

Finally, in terms of risk, NSP1 presents a series of complicated rules and regulations that place the grantee in danger of unwittingly misappropriating funds. This danger is complicated by the multiple actors involved necessarily in property transactions, many of whom are not accustomed to the level of scrutiny required by CDBG and similar federal funding.

Sustainability, Affordability, and Risk: NSP2 (score 7 out of 10)

NSP2 has an improved score on this dimension over NSP1 because the policy affectively limits the amount of subsidy available per unit by requiring a minimum of 100 homes (or units) to be touched for every grant. While the limit of the subsidy would increase with an increase in an award over \$5 million, the requirement necessitates, or at least encourages, partnerships and leveraging of funding. In addition, a requirement of NSP2 for energy efficient and green-friendly design may effectively make each unit more affordable over time.

Risk is rated higher with NSP2 as well because the competitive process built into the policy requires a high level of capacity in order to qualify for the grant, suggesting that NSP2 recipients are well positioned to administer the funds safely. However, just as with administrative operability, there is the chance that with new types of actors and partnerships receiving funds, a learning curve might put new

grantees at risk of regulatory infractions. The \$50 million budgeted for technical assistance and capacity building should mitigate this effect somewhat. Finally, attempts have been made at the congressional level to defund the program altogether, which introduces some risk to projects where contracts have yet to be signed.

Sustainability, Affordability, and Risk: NSP3 (score 5 out of 10)

NSP3 does not introduce new changes that substantively differentiate it from what has been noted in the evaluation of NSP1. A lower rating on the affordability dimension offsets the lowered risk from the relaxation of property eligibility requirements for the low-income set-aside. Again, the lack of rules regarding leveraging outside funding resulted in a project in Macon that was funded 100% with NSP3. As in NSP1, the will receive little, if any, program income on any of its projects, resulting in a loss of subsidy over time as affordability requirements expire. While this may not have been the case in many other communities, I rate the policy based on its minimum requirements here.

Step 5: Policy Evaluation Matrix

Below I present a matrix that compares NSP1, 2 and 3 across the evaluation criteria discussed above in order to provide a clearer graphical representation of my evaluation. Scores for each criteria are weighted according the scheme described above, and are summed at the bottom of the matrix. A color scheme to represent intermediate scores helps to compare policies across the criteria rather than relying on total scores alone. This helps to identify key negative and positive dimensions of each policy to provide ideas for future directions of the program. Results score NSP1 the highest of the three policies at 5.9 out of 10. NSP2 comes in a close second at 5.8, and NSP3 scored 5.4. After presentation of the matrix I discuss the implications of my results and conclude with some recommendations based on my analysis.

Table 2: Policy Evaluation Matrix

Policy Alternatives							
Criteria	Weight	NSP 1	WS*	NSP2	WS*	NSP3	WS*
Community Benefits	15%	<ul style="list-style-type: none"> Wide range of uses Restrictive regulations Dependent on local civic infrastructure/resilience Dependent of local market conditions Dependent of size of grant relative to need 	0.9	<ul style="list-style-type: none"> Higher capacity required to receive funds Leveraging of funds encouraged by structure of grant Competition encouraged well designed programs Enhanced geographic targeting 	1.2	<ul style="list-style-type: none"> Significantly less funding available Fewer units in raw numbers Potential for better program design based on improved capacity over time/experience 	0.6
Political Viability	25%	<ul style="list-style-type: none"> Federal support for policy due to crisis environment and bargaining ability Local support for policy due to high need and wide distribution of funds Policy helpful to private market as well 	2	<ul style="list-style-type: none"> Problems from jurisdictions not funded Potential political cover from not “wasting” funds through direct allocations regardless of capacity 	1.2	<ul style="list-style-type: none"> Less funding so less visible Continued threat of defunding by House republicans 	1.3
Administrative Operability	30%	<ul style="list-style-type: none"> CDBG “chassis” easier from HUD’s perspective, difficult from local perspective Highly regulated Restrictive use of funds Problem adapting to evolving foreclosure landscape Problems administering for “new” grantees or less resilient grantees 	1.2	<ul style="list-style-type: none"> Definitions of eligible properties expanded Enhanced capacity and comprehensive planning required Additional capacity building and technical assistance provided Better control at HUD and easier to monitor (fewer grantees) 	1.8	<ul style="list-style-type: none"> Additional flexibility in low-income targeting eligibility Smaller grants easier to administer at local level Local jurisdictions had base of experience to build from Potential trouble from new rental and vicinity hiring requirements 	1.8
Equity	15%	<ul style="list-style-type: none"> CDBG protections 25% low-income set aside Minimum period of affordability Potential problems in meeting low-income requirements Horizontal equity difficult to achieve based on available funds—dependent on program design 	1	<ul style="list-style-type: none"> Problems with vertical and horizontal equity Areas without program capacity left out Otherwise same basic protections 	0.6	<ul style="list-style-type: none"> New focus on affordable rental housing Vicinity hiring Low level of funding leaves problems of horizontal equity Dependent of program design Otherwise same basic protections 	0.9
Sustainability/ Affordability/ Risk	15%	<ul style="list-style-type: none"> Ability to reinvest funding granted after initially being prevented Few restrictions of leveraging funds—highly dependent on program design High risk of running afoul of regulations Policy changes create moving target 	0.8	<ul style="list-style-type: none"> Per unit subsidy levels reduced and leveraging increased Better planning and capacity means fewer risks of program failure Energy efficiency for better long-term affordability/sustainability Potential problems with new types of grantees 	1	<ul style="list-style-type: none"> Relaxed regulations increase ability to meet statutory requirements Less funding to address problem and lack of leverage required Risk of legislative program termination 	0.8
Total Score:	100%		5.9		5.8		5.4

*WS=Weighted Score

Color Key	
0.1-0.8	
0.9-1.4	
1.5-2.0	

Discussion and Conclusions

In my introduction to this analysis I raised the issue of tradeoffs. While each of the policies evaluated represent incremental changes based on various levels of political and program feedback, tradeoffs are at the center of these changes. For NSP1 and NSP2 to result in such close scores yet be so different in nature suggests the possibility that even tradeoffs are possible across dimensions. This is relevant to policy development because it suggests an organic relationship between policy components and the types of criteria policy makers wish to fulfill.

The above evaluation criteria and scoring are not intended to represent an exhaustive or empirical analysis of NSP policies, and the total scores may be considered somewhat arbitrary. I recognize that concepts among the criteria dimensions overlap somewhat and can be difficult to tease apart, but I have tried to score the policies consistently across dimensions.

In addition, the incremental nature of evolving NSP policy presents somewhat of a moving target for trying to draw clear policy distinctions. Therefore, the evaluation matrix is perhaps more useful in distilling a few key features about NSP. First, NSP1 was a large, new, and wide-reaching program, and as such was bound to need testing and tweaking. In response to two major critiques—that the funding was insufficient and grantees were inconsistent in their capacity to administer the program—policy makers traded equity for operability and political viability for leverage, affordability, and enhanced targeting and control. Along the way, minor changes were made to attempt to respond to a growing understanding of the complexity of markets for REO and abandoned property, which continued to shift over time. NSP3 seemed almost like an afterthought, being smaller and less ambitious than either of the first two programs, and this may be reflective of the diminishing appetite for stimulus at the federal level and HUD's desire to avoid conflict and controversy among its grantees.

Whatever these larger issues, however, what is clear is that local communities, states, nonprofits, and for profits all responded in kind by trying to make the best use of these policies according to their own organizational capacity and particular markets. I would argue that, in some cases, communities were

successful both in growing their own capacity through cross-collaborative efforts and in making strides toward stabilizing communities injured by the foreclosure crisis. It is in these lessons that NSP may provide longer-term policy guidance. While my analysis has by no means been comprehensive and may in fact be myopic given my closeness to one particular program, I suggest that these lessons may still be useful for potential future iterations of NSP:

Recommendations

1. Do not be afraid to create a new program.

The use of CDBG as a vehicle to deliver stimulus funds was unnecessary. Title III of HERA—Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes—was all of 5 pages long. Although HUD was only given 60 days to develop rules and produce a formula for distributing funding, many limitations were built into the policy that were not reflected in the statutory language. While this suggestion may have been unrealistic at the time, hindsight allows the opportunity now to think ahead about what a less constricted policy might look like.

2. Develop a better understanding of the relationship between organizational capacity, market conditions, and the design of effective foreclosure responses.

Swanstrom et al. (2009), Immergluck (2009; 2012; *forthcoming*), and many others have provided critical analytical frameworks for understanding the dynamics of different actors and their responses to REO and abandoned property markets. Sufficient results from NSP activities should be available to begin conducting more robust and large-scale studies not only to identify key effective strategies, but to *quantify* levels of effectiveness for various conditions that exist. These analyses could serve to provide more targeted and effective technical assistance, or to design more effective regulations at the outset.

3. Clarify program objectives.

Federal policy should distinguish more clearly between neighborhood stabilization and neighborhood revitalization, and either provide clearer guidance

to grantees regarding the objectives of NSP or relax requirements and allow communities more free range to apply the funding to locally defined problems.

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